



## MEMORANDUM

TO: Legislative Fiscal Committee Members  
FROM: Dave Reynolds, Fiscal Services Division  
DATE: December 13, 2016  
RE: December Fiscal Reports

The information herein provides an update on the condition of the General Fund budget based on the latest estimates from the December Revenue Estimating Conference (REC) and the Legislative Services Agency's (LSA) most recent estimates for the Medicaid Program.

**General Fund Revenue Update:** The REC met on December 12 and revised the General Fund revenue estimate for FY 2017 and FY 2018 (**Attachment A**). The REC lowered the estimates for FY 2017 and FY 2018 by \$96.2 million and \$51.0 million, respectively, compared to the estimates set at the October REC meeting. The December estimate for FY 2017 totals \$7.212 billion, which is an increase of \$290.8 million (4.2%), compared to FY 2016. The FY 2018 revenue estimate is \$7.556 billion and represents an increase of \$344.4 million (4.8%) compared to the December FY 2017 estimate.

**General Fund Balance Sheet: Attachment B** shows the Projected Condition of the General Fund Budget with the December REC estimates incorporated. The lower estimates adopted by the REC result in an estimated shortfall of \$132.8 million in FY 2017, which includes the assumption that Medicaid will receive a supplemental appropriation of \$22.0 million. For FY 2018, the revised shortfall is projected to be \$99.2 million. This assumes an expenditure limitation of \$7.481 billion and Built-in and Anticipated Expenditure increases of \$227.6 million. The estimated Built-in and Anticipated Expenditures have been revised lower compared to the November estimate of \$242.0 million due to a revised Medicaid estimate. An explanation of the latest Medicaid estimate is below.

**Reserve Funds:** The balances in the Cash Reserve Fund and the Economic Emergency Fund, together, are estimated to total \$738.0 million in FY 2017 and \$727.6 million in FY 2018. The estimated appropriation for the Performance of Duty expenditures, which is funded through the Economic Emergency Fund, has not been updated since the 2016 Legislative Session. This number is typically updated annually with information provided by the Department of Homeland Security and Emergency Management. When the LSA receives the updated estimate, it will be incorporated into the reserve fund estimates as well as the General Fund balance sheet.

**Medicaid Update:** The Medicaid forecasting group met on December 1 and set a new estimated need for FY 2017 for Medicaid of \$22.0 million. For FY 2018, the Department of Management and the Department of Human Services declined to provide an estimate that included an increase to the capitation rates for three Managed Care Organizations (MCOs). For FY 2018, the LSA is estimating a

need of \$67.1 million, plus an additional \$50.9 million if the Legislature were to fully rebase nursing facilities and home health care providers, for a total of \$118.0 million. The LSA is using capitation rate data provided by the DHS from Milliman Inc. of a 1.5% and 3.5% rate increase depending on population. For more information, please visit: <https://www.legis.iowa.gov/publications/fiscal/medicaid>. The next Medicaid forecasting meeting is scheduled for December 20.

If you have any questions, please feel free to contact me at: [dave.reynolds@legis.iowa.gov](mailto:dave.reynolds@legis.iowa.gov) or (515)281-6937.

# REVENUE ESTIMATING CONFERENCE

December 12, 2016

# ATTACHMENT A

			% Change FY 16 vs. FY 15	REC FY 17 Estimate 13-Oct-16	% Change FY 17 Est. vs. FY 16 Actual	REC FY 18 Estimate 13-Oct-16	% Change FY 18 Est. vs. FY 17 Estimate	REC FY 17 Estimate 12-Dec-16	% Change FY 17 Est. vs. FY 16 Actual	REC FY 18 Estimate 12-Dec-16	% Change FY 18 Est. vs. FY 17 Estimate
<b>Tax Receipts</b>	<b>FY 15 Actual</b>	<b>FY 16 Actual</b>	<b>FY 15 Actual</b>								
Personal Income Tax	\$4,207.3	\$4,355.5	3.5%	\$4,667.5	7.2%	\$4,868.6	4.3%	\$4,608.1	5.8%	\$4,854.2	5.3%
Sales/Use Tax	2,753.0	2,810.5	2.1%	2,902.2	3.3%	3,016.1	3.9%	2,864.7	1.9%	2,989.8	4.4%
Corporate Income Tax	576.3	520.5	-9.7%	530.8	2.0%	554.1	4.4%	531.4	2.1%	546.4	2.8%
Inheritance Tax	87.0	91.8	5.5%	97.7	6.4%	100.9	3.3%	82.1	-10.6%	86.3	5.1%
Insurance Premium Tax	109.6	119.7	9.2%	115.4	-3.6%	116.2	0.7%	118.7	-0.8%	120.0	1.1%
Cigarette Tax	0.0	0.0		0.0		0.0		0.0		0.0	
Tobacco Tax	0.0	0.0		0.0		0.0		0.0		0.0	
Beer Tax	14.5	14.1	-2.8%	14.1	0.0%	14.1	0.0%	14.1	0.0%	14.1	0.0%
Franchise Tax	46.9	52.1	11.1%	52.3	0.4%	55.2	5.5%	48.9	-6.1%	50.0	2.2%
Miscellaneous Tax	1.4	1.5	7.1%	1.5	0.0%	1.5	0.0%	1.5	0.0%	1.5	0.0%
<b>Total Tax Receipts</b>	<b>\$7,796.0</b>	<b>\$7,965.7</b>	<b>2.2%</b>	<b>\$8,381.5</b>	<b>5.2%</b>	<b>\$8,726.7</b>	<b>4.1%</b>	<b>\$8,269.5</b>	<b>3.8%</b>	<b>\$8,662.3</b>	<b>4.7%</b>
<b>Other Receipts</b>											
Institutional Payments	\$15.5	\$12.1	-21.9%	\$6.1	-49.6%	\$6.1	0.0%	\$6.8	-43.8%	\$6.8	0.0%
Liquor Profits	108.4	112.3	3.6%	111.0	-1.2%	111.0	0.0%	111.5	-0.7%	111.5	0.0%
Interest	3.7	4.1	10.8%	4.2	2.4%	4.3	2.4%	4.2	2.4%	4.3	2.4%
Fees	27.7	28.1	1.4%	26.8	-4.6%	26.5	-1.1%	27.0	-3.9%	26.3	-2.6%
Judicial Revenue	99.9	97.7	-2.2%	97.7	0.0%	97.7	0.0%	97.7	0.0%	97.7	0.0%
Miscellaneous Receipts	39.7	42.7	7.6%	42.7	0.0%	43.4	1.6%	43.3	1.4%	43.6	0.7%
Racing and Gaming	0.0	0.0		0.0		0.0		0.0		0.0	
<b>Total Other Receipts</b>	<b>\$294.9</b>	<b>\$297.0</b>	<b>0.7%</b>	<b>\$288.5</b>	<b>-2.9%</b>	<b>\$289.0</b>	<b>0.2%</b>	<b>\$290.5</b>	<b>-2.2%</b>	<b>\$290.2</b>	<b>-0.1%</b>
<b>Gross Tax &amp; Other Receipts</b>	<b>\$8,090.9</b>	<b>\$8,262.7</b>	<b>2.1%</b>	<b>\$8,670.0</b>	<b>4.9%</b>	<b>\$9,015.7</b>	<b>4.0%</b>	<b>\$8,560.0</b>	<b>3.6%</b>	<b>\$8,952.5</b>	<b>4.6%</b>
Accruals (Net)	\$19.6	\$14.2		\$24.6		\$28.9		\$36.6		\$10.7	
Refund (Accrual Basis)	-967.9	-1,018.3	5.2%	-1,013.0	-0.5%	-1,046.0	3.3%	-1,013.0	-0.5%	-1,018.0	0.5%
School Infrs. Refunds (Accrual)	-450.5	-466.9	3.6%	-474.4	1.6%	-495.2	4.4%	-470.6	0.8%	-490.8	4.3%
<b>Total Net Receipts</b>	<b>\$6,692.1</b>	<b>\$6,791.7</b>	<b>1.5%</b>	<b>\$7,207.2</b>	<b>6.1%</b>	<b>\$7,503.4</b>	<b>4.1%</b>	<b>\$7,113.0</b>	<b>4.7%</b>	<b>\$7,454.4</b>	<b>4.8%</b>
<b>Transfers (Accrual Basis)</b>											
Lottery	\$72.4	\$85.5	18.1%	\$80.0	-6.4%	\$83.0	3.8%	\$78.0	-8.8%	\$81.0	3.8%
Taxpayer Trust Fund Transf.	27.7	0.0		0.0		0.0		0.0		0.0	
Other Transfers	27.5	43.9	59.6%	20.9	-52.4%	20.9	0.0%	20.9	-52.4%	20.9	0.0%
<b>Net Receipts Plus Transfers</b>	<b>\$6,819.7</b>	<b>\$6,921.1</b>	<b>1.5%</b>	<b>\$7,308.1</b>	<b>5.6%</b>	<b>\$7,607.3</b>	<b>4.1%</b>	<b>\$7,211.9</b>	<b>4.2%</b>	<b>\$7,556.3</b>	<b>4.8%</b>
Estimated Gambling Revenues											
Deposited To Other Funds	\$277.9	\$287.1	3.3%	\$289.3	0.8%	\$292.3	1.0%	\$289.3	0.8%	\$292.3	1.0%
Interest Earned on Reserve Funds	\$2.8	\$4.2	50.0%	\$4.2	0.0%	\$4.2	0.0%	\$4.2	0.0%	\$4.2	0.0%

There were no law change adjustments to the October REC estimates.

**State of Iowa**  
**Projected Condition of the General Fund Budget**  
(Dollars in Millions)

	<b>Actual FY 2016</b>	<b>Estimated FY 2017</b>	<b>Projection FY 2018</b>
<b>Resources</b>			
Receipts <sup>1</sup>	\$ 6,921.1	\$ 7,211.9	\$ 7,556.3
Surplus Carryforward	367.3	24.6	0.0
<b>Total Resources</b>	<u>\$ 7,288.4</u>	<u>\$ 7,236.5</u>	<u>\$ 7,556.3</u>
<b>Expenditure Limitation</b>			<b>\$ 7,480.7</b>
<b>Appropriations</b>			
Enacted Appropriations/FY 2018 Baseline	\$ 7,174.3	\$ 7,350.6	\$ 7,352.3
Adjustment to Standings	8.1	1.7 <sup>2</sup>	0.0
Supplemental/Deappropriations	72.4	22.0 <sup>3</sup>	0.0
Built-in and Anticipated Increases	<u>0.0</u>	<u>0.0</u>	<u>227.6</u>
Total Before Balance Adjustment	7,254.8	7,374.3	7,579.9
<b>Adjustment to Balance Budget</b>	<b><u>0.0</u></b>	<b><u>- 132.8</u></b>	<b><u>- 99.2</u></b>
<b>Total Appropriations</b>	<u>\$ 7,254.8</u>	<u>\$ 7,241.5</u>	<u>\$ 7,480.7</u>
Reversions	<u>- 10.5</u>	<u>- 5.0</u>	<u>- 5.0</u>
<b>Net Appropriations</b>	<u>\$ 7,244.3</u>	<u>\$ 7,236.5</u>	<u>\$ 7,475.7</u>
<b>Ending Balance - Surplus</b>	<u><u>\$ 44.1</u></u>	<u><u>\$ 0.0</u></u>	<u><u>\$ 80.6</u></u>

<sup>1</sup> The FY 2017 and FY 2018 revenue estimates represent increases of 4.2% and 4.8%, respectively. The estimates were established by the Revenue Estimating Conference on December 12, 2016.

<sup>2</sup> The FY 2017 appropriation for State Aid to Schools was adjusted by \$1.7 million to reflect changes in various factors that comprise the school aid formula including enrollment, property valuations, and special education.

<sup>3</sup> The Medicaid Forecasting Group is estimating a \$22.0 million shortfall in the General Fund Medicaid appropriation for FY 2017.

## State of Iowa Reserve Funds

(Dollars in Millions)

<b>Cash Reserve Fund (CRF)</b>	<b>Actual FY 2016</b>	<b>Estimated FY 2017</b>	<b>Projection FY 2018</b>
<b>Funds Available</b>			
Balance Brought Forward	\$ 523.3	\$ 539.0	\$ 553.5
Gen. Fund Transfer from Surplus	410.7	44.1	0.0
<b>Total Funds Available</b>	<b>\$ 934.0</b>	<b>\$ 583.1</b>	<b>\$ 553.5</b>
Excess Transferred to EEF	-395.0	-29.6	0.0
<b>Balance</b>	<b>\$ 539.0</b>	<b>\$ 553.5</b>	<b>\$ 553.5</b>
<i>Maximum 7.5%</i>	<i>\$ 539.0</i>	<i>\$ 553.5</i>	<i>\$ 566.7</i>
 <b>Economic Emergency Fund (EEF)</b>	 <b>Actual FY 2016</b>	 <b>Estimated FY 2017</b>	 <b>Projection FY 2018</b>
<b>Funds Available</b>			
Balance Brought Forward	\$ 174.5	\$ 189.9	\$ 184.5
Excess from Cash Reserve	395.0	29.6	0.0
<b>Total Funds Available</b>	<b>\$ 569.5</b>	<b>\$ 219.5</b>	<b>\$ 184.5</b>
<b>Appropriations &amp; Transfers</b>			
Excess Transferred to General Fund	\$ - 367.3	\$ - 24.6	\$ 0.0
Excess Transferred to Taxpayer Trust Fund	0.0	0.0	0.0
Executive Council - Performance of Duty	-12.3	-10.4	-10.4
<b>Balance</b>	<b>\$ 189.9</b>	<b>\$ 184.5</b>	<b>\$ 174.1</b>
<i>Maximum 2.5%</i>	<i>\$ 179.7</i>	<i>\$ 184.5</i>	<i>\$ 188.9</i>
 <b>Combined Reserve Fund Balances</b>	 <b>Actual FY 2016</b>	 <b>Estimated FY 2017</b>	 <b>Projection FY 2018</b>
Cash Reserve Fund	\$ 539.0	\$ 553.5	\$ 553.5
Economic Emergency Fund	189.9	184.5	174.1
<b>Total CRF and EEF</b>	<b>\$ 728.9</b>	<b>\$ 738.0</b>	<b>\$ 727.6</b>

# **FY 2018 General Fund Built-in and Anticipated Expenditures**

(Dollars in Millions)

	<b>LSA</b>
	<b>Estimates</b>
<b><u>Built-in Changes</u></b>	
1. Human Services – Medical Assistance	\$ 118.0
2. Education – K-12 School Foundation Aid	52.9
3. Natural Resources – REAP	20.0
4. Management – Technology Reinvestment Fund	17.5
5. Education – Instructional Support Program	14.8
6. Management – State Appeal Board Claims	4.7
7. College Aid – College Work Study Standing	2.8
8. Public Safety – Peace Officer Retirement Unfunded Liability	2.5
9. Education – Nonpublic School Transportation	2.0
10. Revenue – Homestead Property Tax Credit	0.4
11. Economic Development Authority – World Food Prize	0.3
12. Cultural Affairs – County Endowment Fund	0.1
13. Revenue – Military Service Tax Credit and Exemption	-0.1
14. Revenue – Commercial/Industrial Property Tax	-2.5
15. College Aid – Iowa Tuition Grant (nonprofit)	-3.4
Subtotal	<u>\$ 230.0</u>
<b><u>Anticipated Expenditure Changes</u></b>	
16. Management – Salary Annualization	\$ 26.3
17. Human Services – Child Care Assistance	11.4
18. Human Services – Child and Family Services	5.5
19. Human Services – Field Operations	4.5
20. Corrections – Drug Costs at Oakdale	2.2
21. Public Safety – Peace Officers' Retirement System	0.9
22. Corrections – County Billings	0.8
23. Education – Teacher Leadership Compensation System	-54.0
Subtotal	<u>\$ -2.4</u>
<b>Total</b>	<b><u>\$ 227.6</u></b>

## Taxpayers Trust Fund

(Dollars in Millions)

	<u>Actual FY 2016</u>	<u>Estimated FY 2017</u>	<u>Projected FY 2018</u>
<b>Funds Available</b>			
Balance Brought Forward	\$ 8.1	\$ 8.1	\$ 8.1
Economic Emergency Transfer	0.0	0.0	0.0
<b>Total Funds Available</b>	<u>\$ 8.1</u>	<u>\$ 8.1</u>	<u>\$ 8.1</u>
<b>Transfer to Tax Credit Fund</b>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>
<b>Total Expenditures</b>	\$ 0.0	\$ 0.0	\$ 0.0
<b>Ending Balance</b>	<u><u>\$ 8.1</u></u>	<u><u>\$ 8.1</u></u>	<u><u>\$ 8.1</u></u>

## Taxpayers Trust Fund Tax Credit Fund

(Dollars in Millions)

	<u>Actual FY 2016</u>	<u>Estimated FY 2017</u>	<u>Projected FY 2018</u>
<b>Funds Available</b>			
Balance Brought Forward	\$ 0.0	\$ 0.0	\$ 0.0
Transfer from Taxpayer Trust Fund	0.0	0.0	0.0
<b>Total Funds Available</b>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>
<b>Expenditures</b>			
Transfer to General Fund	\$ 0.0	\$ 0.0	\$ 0.0
Reversion to the Taxpayer Trust Fund	0.0	0.0	0.0
<b>Total Expenditures</b>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>
<b>Ending Balance</b>	<u><u>\$ 0.0</u></u>	<u><u>\$ 0.0</u></u>	<u><u>\$ 0.0</u></u>

# State Tax Credit Expected Claims Projection

(Dollars in Millions)

<b>Tax Credit Program</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b><u>Capped Programs</u></b>			
Accelerated Career Education Tax Credit	\$ 4.2	\$ 3.9	\$ 3.9
Agricultural Assets Transfer Tax Credit	3.4	4.6	5.0
Custom Farming Contract Tax Credit	0.0	0.1	0.2
Endow Iowa Tax Credit	5.4	5.1	5.1
Enterprise Zone Program	7.9	6.5	3.8
Enterprise Zone Program - Housing Component	13.0	16.6	11.2
High Quality Jobs Program	38.1	37.6	51.3
Historic Preservation and Cultural and Entertainment District Tax Credit	35.3	58.1	56.2
Redevelopment Tax Credit	2.6	6.8	6.9
Renewable Energy Tax Credit	5.3	9.0	13.0
School Tuition Organization Tax Credit	10.9	11.3	11.4
Solar Energy System Tax Credit	3.2	3.7	3.9
Venture Capital Tax Credit - Innovation Fund	2.1	1.0	2.1
Venture Capital Tax Credit - Iowa Fund of Funds	0.9	1.2	0.0
Venture Capital Tax Credit - Qualified Bus. or Comm.- Capital Fund	1.0	1.8	2.1
Venture Capital Tax Credit - Venture Capital Funds	0.0	0.0	0.0
Wind Energy Production Tax Credit	0.8	2.2	1.7
Workforce Housing Tax Incentive Program	0.0	6.2	10.6
<b>Total Capped Programs</b>	<b>\$ 134.1</b>	<b>\$ 175.8</b>	<b>\$ 188.3</b>
<b><u>Uncapped Programs</u></b>			
Adoption Tax Credit	\$ 0.4	\$ 0.5	\$ 0.9
Biodiesel Blended Fuel Tax Credit	15.4	17.8	17.0
Charitable Conservation Contribution Tax Credit	0.4	0.7	0.7
Child and Dependent Care Tax Credit	5.7	6.7	6.5
E15 Gasoline Promotion Tax Credit	0.1	0.4	0.4
E85 Gasoline Promotion Tax Credit	1.9	2.2	2.5
Early Childhood Development Tax Credit	0.7	0.7	0.7
Earned Income Tax Credit	71.8	70.9	71.8
Ethanol Promotion Tax Credit	1.8	1.4	1.1
Farm to Food Donation Tax Credit	0.0	0.0	0.0
Geothermal Heat Pump Tax Credit	1.6	2.4	0.4
Geothermal Tax Credit	0.0	0.0	1.5
Iowa Industrial New Job Training Program (260E)	37.5	42.5	43.8
New Capital Investment Program	0.0	0.0	0.0
New Jobs and Income Program	0.0	0.0	0.0
Research Activities Tax Credit	53.8	56.8	63.8
Supplemental Research Activities Tax Credit	7.0	4.0	5.6
Targeted Jobs Tax Credit from Withholding	5.0	4.9	5.2
Tuition and Textbook Tax Credit	15.4	15.2	15.3
Volunteer Firefighter and EMS Tax Credit	1.4	1.3	1.3
<b>Total Uncapped Programs</b>	<b>\$ 219.7</b>	<b>\$ 228.5</b>	<b>\$ 238.6</b>
<b>Tax Credit Program Total</b>	<b>\$ 353.8</b>	<b>\$ 404.3</b>	<b>\$ 426.9</b>

## Notes:

These estimates are based on the Tax Credit Expected Claims Projection published by the Department of Revenue in December 2016. The table above reflects the tax credits that are likely to be claimed in a given fiscal year based on previous experience. The projected claims are incorporated in the FY 2017 and FY 2018 REC revenue estimates.

The numbers may not equal totals due to rounding.